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ING/R-19
Control No.
12 August 1954

SECOND ANNUAL PROGRESS REPORT OF THE
INTELLIGENCE WORKING GROUP

1 July 1953 - 30 June 1954

I. Responsibilities of the ING

Within its Terms of Reference, the Intelligence Working Group (ING) ^{1/} is responsible for arranging the mobilization of intelligence resources and data relevant to needs of the Economic Defense Advisory Committee (EDAC), for recommending to appropriate agencies collection requirements designed to fill specific gaps, and for providing EDAC with both coordinated intelligence reports and "spot" intelligence. The following provides a report on ING activities and accomplishments during the period 1 July 1953 to 30 June 1954, and a statement on ING problems and objectives.

II. ING Activities and Accomplishments

A. Mobilization of Intelligence Resources and Data

The ING continued to provide an interagency forum where action agencies engaged in the economic defense program could draw upon the

^{1/} The ING was established at the request of the Director of Mutual Security and the Secretary of State, and with the approval of the Director of Central Intelligence and the Secretary of Defense. Its Terms of Reference were approved by the IAC on 25 July 1952 (IAD-D-53/1, as amended). For further details, see ING/R-13, "First Annual Progress Report of the ING".

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intelligence resources and data available in CIA, ONI, AFOIN, G-2 and OIR/State, *as well as the resources of the major IAC agencies.* ING thus serves as the focal point of ~~government-wide~~ *Government-wide research* support at the working level for EDAC and its member agencies. This ILLEGIB mobilization function included [REDACTED]

the preparation and distribution for use of member agencies of an ING Commodity Analysis Checklist to facilitate analysis of the best available intelligence; the adoption of new procedures for the production and coordination of commodity analyses; and the initiation of measures to obtain more adequate military intelligence for use in connection with the recent comprehensive review of the international security lists.

An ING subgroup was appointed, under chairmanship of a Treasury representative, to study and report upon the need for and the adequacy of intelligence on external financial operations of the Soviet bloc. Its findings were incorporated in an ING report which was furnished to the EDAC Executive Committee for appropriate action and to the Economic Intelligence Committee for information.

ING was reasonably successful in arranging for mobilization of economic defense data and analyses from CIA resources, *since* ORR recognized ING requests *as a legitimate* requirement on its research area, [REDACTED] ILLEGIB

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[REDACTED] In addition, ING channels have been used for the distribution of numerous collated intelligence items produced by the ING-sponsored *strategic* ~~current~~ Intelligence Unit of CIA.

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B. Production of Coordinated Intelligence

1. Intelligence Support to Security List Review - One of the major tasks of IAG during the past year was the production of coordinated intelligence on the strategic importance of particular commodity items to the war potential of the Soviet bloc. IAG provided the principal support channel to the Joint Operating Committee in this respect prior to the acceleration of the security list review. Of 14 studies produced by IAG, 10 provided information required by the EDAC-ACEP structure in determining the strategic rating of specific commodity items. Intelligence provided through IAG supplemented ^{the technical information} ~~the~~ furnished by the Department of Commerce technical task groups. Analyses were provided the JOC on commodities such as aluminum, magnesium, tractors, chemicals, and television transmitters (see Tab A).

2. Appraisal of Soviet Trade Tactics - During this period the intelligence community was called upon to provide guidance and information required at the policy planning level on the significance of Soviet offers of strategic materials to the West and the implications of the "New Course" in the domestic economies of the several countries of the Soviet bloc.

The Consultative Group (CG) in April 1954 agreed that, in light of current expansion as compared with recent low levels of trade between the Soviet bloc and the Free World, it would be desirable to devote

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increased effort and attention to the detection and analysis of any changes in Soviet trade tactics generally. This surveillance was deemed necessary to take account of developments likely to affect the operation of strategic export controls and to enable Western countries to counter Soviet economic and political penetration. Within the U. S. Government, the National Security Council and cognizant agencies were faced with the following problem: should the U.S. sell Government-owned perishable surplus agricultural products to the USSR or its satellites in Europe or exchange on a barter basis such surplus commodities for non-perishable materials needed by the U.S.?

The IWG had anticipated the need for work in this field as early as September 1953 when consideration was given to an interagency study on the Soviet trade offensives. An IWG case on "Proposed Study of Soviet Trade Activities and Tactics in Non-COCOM Areas" was drafted in that month, but work was not commenced due to the preoccupation of member agencies with a related intelligence study. NIE-10-54, "Soviet Capabilities for Economic Warfare." The IWG, aware of the urgency of intelligence on this subject, endeavored at intervals to elicit guidance from the Executive Committee as to its intelligence requirements on this subject. The matter was considered at no less than seven meetings during the period September 1953 - June 1954, and a bibliography of 45 articles on changing Soviet trade on economic policy was circulated in May 1954. These discussions in IWG, together with

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papers on various ^pfacts of the Soviet trade problem prepared in State, Treasury and MDAC, served as the basis of draft papers prepared for submission to COCOM pursuant to the CG agreement to discuss Soviet trade trends and tactics. ^{a joint CIA/DIR} Reports appraising the significance of Soviet offers of manganese, chrome, platinum and palladium, and petroleum to the West were furnished to EDAC.

With respect to the consumer goods problem, CIA was requested (through ING) to submit for EDAC consideration a list of non-strategic consumer goods having certain characteristics which would make them appropriate for licensing to the European satellites to decrease the political and economic unity of the Soviet bloc. Through the aegis of ING, a CIA study on the availability of consumers' goods in the Soviet bloc was provided to the Executive Committee. It was the consensus of the ING that the specific criteria for selection of goods for export would rule out most of the items or categories on the CIA list. The ING also called attention to the internal benefits to the Soviet regime at that time of increasing the availability of consumers' goods through imports from the West.

C. Single-Agency Intelligence Contributions

ING has continued to furnish EDAC agencies with significant items of current intelligence (see Tab B). In addition, current intelligence on East-West trade diversions is being provided by the Strategic Trade

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See Mark 62
Branch (D/E/RR). This unit was established in response to the recommendation of the ING for an intelligence unit within CIA to provide intelligence for the implementation and enforcement of Free World economic defense measures. Through these facilities a quantity of information has been accumulated, analyzed, and transmitted to action agencies, consisting of spot intelligence on diversion or other illegal procurement attempts, and collated analytical case reports on transactions and/or firms and individuals participating in such transactions.

25X1B Through its representatives on ING, the Office of Naval Intelligence continued to contribute significant items of current economic defense intelligence to the EDAC.

25X1B

~~(A list of miscellaneous~~

delete ~~publications providing intelligence support on subject matter of current interest to EDAC during the report period is found in Tab D.)~~

D. Intelligence Collection and Utilization

During the year, ING renewed its efforts to establish a comprehensive pattern of U.S. Government requirements for the covert collection of economic defense information (see Tab). Proposed instructions for lateral dissemination of East-West trade information in the field, prepared under ING auspices,

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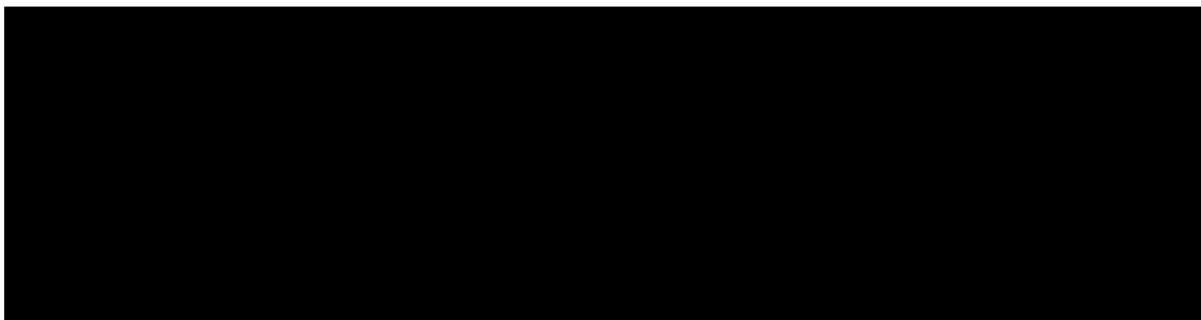
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but reached no conclusions, on the Executive Committee request for a statement of recommendations for corrective action with respect to the problems of inadequate priorities for the collection, and undue delay in the transmission, of economic defense information (see Tab).

III. Major Problems and Objectives

A. Utilization of INW Facilities - The tempo of INW activity fluctuated widely during the report period. The severe decline during the second half of the year, reflected in the initiation of only three cases compared to twenty during the July - December 1953 period, can be traced primarily to the preoccupation of member agencies with the security list review, and to the placing by EDAC of few requests upon INW. ~~(There were several instances, however, (such as the problem of differential controls between the European Soviet bloc and Communist China) in which the INW could have rendered intelligence support. In this particular case, CIA was called upon by the Far Eastern Economic Defense Working Group of EDAC for direct support, rather than a request being levied through established INW channels. This indicates a feeling on the part of EDAC that intelligence~~

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Enable int. agencies to plan support & call on facilities necessary to fully meet

~~support could be obtained more quickly by direct levy on CIA, rather than through IIG channels. (It is suggested, however, that the basic deficiency lies not so much in the IIG mechanism as in the fact that intelligence research within the U.S. Government is not oriented in a manner to provide a quick response to the needs of the economic defense program. Research is, rather, concentrated primarily on departmental intelligence needs and through the medium of IIG, on long-range research of common concern.~~

Part on content of programming to be co-ordinated with all parts

~~Another reflection of this deficiency of orientation and emphasis was revealed in the OIR/State proposal (Ref. ED/EC D-60 of 21 June 1954) that the Executive Committee approve the undertaking of a research program in the field of economic defense during fiscal year 1955. Referenced memorandum outlines a program for a research staff in OIR designed to provide MDAC with direct support in both basic and current operating intelligence.~~

To stimulate the continued use of ING as the agreed mechanism of intelligence support, special summaries of ING activities were published in January, March and May. These directed the attention of ING and Executive Committee members to specific problems of economic defense on which ING had an intelligence support responsibility.

B. Objectives for Coming Year

With the substantial completion of the security list review by the end of June 1954, EDAC has indicated a renewed interest in the utilization of ING facilities. MDAC has already requested the ING to: recommend the

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25X1B establishment of suitable mechanisms and surveillance techniques to trace the movement of these strategic items decontrolled during the COCOM negotiations; assemble and assess the adequacy of all intelligence contributions furnished the Joint Operating Committee during the list review so as to make available a "known universe" of commodity intelligence from which further analysis can proceed; develop additional intelligence on the subject of Soviet trade trends and tactics as a basis for preparation of papers to be submitted to the fall session of COCOM; and, review the problem of EDAC requirements for [REDACTED] with a view to establishment of a central staff responsible for assembly and publication of such information. Work is also required of IWG in determining the adequacy

25X1X5 [REDACTED] is to the objectives and requirements of the economic defense program. It is also likely that IWG will be called upon to inquire into the intelligence aspects of national planning for economic warfare, now being considered elsewhere in the government.

IWG activities during the year ahead, as during the review period, will be guided by NSC 152/3. This statement of U.S. policy in the economic defense field placed increased emphasis on improving the availability and utilization of current intelligence in matters relating to enforcement of free world controls, and in developing ancillary measures to improve

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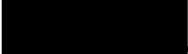
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implementation and enforcement of agreed control systems. It is hoped that higher priority can be given by the intelligence agencies to the collection of intelligence required to implement the task as outlined in NSC 152/3. *Program work*

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Chairman
Intelligence Working Group

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; gg; 12 August 1954
CIA/RR (IMC Secretariat)

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Tab A

List of All IWG Completed Studies

1 July 1953 - 30 June 1954

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/R-7	"Soviet Bloc Kyanite Position"	24 July
IWG/R-8 25X1B	[REDACTED] Banks in Financing of East-West Trade Since 29 August 1952"	5 August
IWG/R-9	"The Tractor Situation in the Soviet Bloc"	21 August
IWG/R-10	"Strategic Importance of Magnetic Recorders and/or Reproducers to the Soviet Bloc"	9 September
IWG/R-11	"Movement of Scrap Metal from the Middle East - 1952"	9 September
IWG/R-12	"Soviet Bloc Position in Steel Wire, Strand, Cable and Rope"	18 September
IWG/R-13	First Annual Progress Report of the IWG, August 1952 - July 1953	18 September
IWG/R-14	"Appraisal of Soviet Offers of Chrome, Manganese, Platinum and Palladium to the United States"	20 October
IWG/R-15	"Indications of Soviet Bloc Vulnerability to Western Controls on Primary Aluminum"	10 February
IWG/R-16	"Final Report and Recommendations of the IWG Subgroup on External Financial Operations of the Soviet Bloc"	11 March
IWG/R-17	Strategic and Security Implications Involved in the Proposed Shipment to the USSR of Marconi Television Trans- mitters (50 KW, 40-70 Mc/s)	11 March
IWG/R-18	Strategic Importance of Magnesium to the Soviet Bloc	12 March

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<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/ID-5	"COCOM Review of II-II Items: Information on Part A - Chemicals"	30 September
IWG/ID-15	"Indications of Soviet Bloc Vulnerability to Controls of West-East Movement of Boron Compounds"	24 November
IWG/ID-25	"Soviet Bloc Exports of Petroleum and Petroleum Products to the Free World"	18 March
IWG/WP-2	"Intelligence Collection and Analysis Required for a Study of the Soviet Automotive Situation"	16 July
IWG/WP-5a	Draft Transmittal to USDEL for Use in COCOM OF CIA Paper on "The Strategic Use Pattern of Lead in the Soviet Bloc"	28 October
IWG/WP-5b	Revised Draft Working Paper on "The Strategic Use Pattern of Lead in the Soviet Bloc"	5 November
IWG/WP-5b Attach. I	"Differences in Specific Estimates between IWG Paper and AFOIN"	27 November
IWG/AM-17	The Problem of Providing Intelligence for Licensing Consumer Goods to European Satellites	2 December

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Tab B

List of All Information Documents Distributed

1 July 1953 - 30 June 1954

<u>Designation</u>	<u>25X1B</u>	<u>Title</u>	<u>Date Issued</u>
IWG/ID-2			9 September
IWG/ID-3			15 September
IWG/ID-4		Transmittal of Report on "Survey of Collection of Economic Defense Information in Western Europe"	23 September
25X1B IWG/ID-6		Transmittal of Information on "East-West Trade Activities of [REDACTED]"	12 October
IWG/ID-7		Transmittal of State Circular Airgram on "Lateral Dissemination of Intelligence Information"	12 October
IWG/ID-8		Transmittal of Documents Provided by Military Intelligence Agencies on the Antibiotics Situation in Communist China	23 October
25X6A IWG/ID-9		Transmittal of Information Document on [REDACTED] Trade Agreement"	27 October
IWG/ID-10		Transmittal of Information Document on "Tetra-ethyl Lead (TEL) for National Iranian Oil Company	2 November
25X1X5 IWG/ID-11		[REDACTED]	2 November
25X6A IWG/ID-12		[REDACTED]	2 November

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	<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
25X1B	IWG/ID-13	[REDACTED]	2 November
25X1X4	IWG/ID-14	Transmittal of ONI Information on "Merchant Ship Construction for Communist China"	6 November
25X1X4	IWG/ID-16	[REDACTED]	25 November
25X1X4	IWG/ID-17	[REDACTED]	25 November
	IWG/ID-18	Transmittal of ONI Information on "Evasion of Bunker Controls"	14 December
	IWG/ID-19	Transmittal of ONI Information on "The Importance of Tankers to the Soviet Bloc"	14 December
	IWG/ID-20	Report on Status of Consumers' Goods List	24 December
	IWG/ID-21	ONI Information Document on "Possible Shipment of Silicon Steel to Communist China"	22 January
	IWG/ID-22	The IWG Commodity Check List and the New Attributes and Standards	26 January
	IWG/ID-23	Bibliography of Intelligence Studies on Changing Soviet Trade and Economic Policy	27 January
	IWG/ID-24	ONI Contribution - Information on "Shipment of Copper Wire from Beirut, Lebanon to Communist China"	11 March
	IWG/ID-26	Unevaluated Intelligence Report on "Effect of Western Controls on the Hungarian Economy"	24 March
	IWG/ID-27	ONI Contribution - Subversion of East-West Trade Controls	7 April

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<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/ID-28	ONI Contribution - Conspiracy to Evade Controls on Shipments of Strategic Material to the Soviet Bloc	12 May
IWG/ID-29		12 May
IWG/ID-30		21 May
IWG/ID-31		2 June

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Tab C

List of Cases Closed, Other than by Completed Study

1 July 1953 - 30 June 1954

<u>Designation</u>	<u>Title</u>	
Case 21	Diversions of Korean Scrap to Communist Destinations	
Case 22	Western Repair and Construction of Merchant Vessels for Soviet Bloc	
Case 26	Bunkering of Vessels in China Trade	
25X1B Case 28	[REDACTED]	
Case 31	EDS Request for Technical Analysis of Repairs to Soviet Vessels [REDACTED] 1949-1952	25X1B
25X1B Case 40	[REDACTED]	
Case 41	Dissemination of Economic Defense Intelligence in the Field	
Case 45	Soviet Efforts to Procure Aircraft Parts and Components	
Case 46	Strategic Importance of Dichlorodifluoromethane (Freon 12) to the Soviet Bloc	
Case 49a	Diversions to the Soviet Bloc of Strategic Materials	
Case 52a	Pharmaceuticals: Soviet Bloc Supply Position in Antibiotics and Sulfanomides	
Case 57a	The Bearings Situation in the Soviet Bloc; Production, Requirements, Trade and Application	
Case 58	Soviet Bloc Strategic Uses of Coaxial Cable	
Case 59	Vulnerability of the Soviet Bloc to a Reduction of Mercury Imports from the West	

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<u>Designation</u>	<u>Title</u>
Case 64, S.1	Inventory of Information Regarding Importance of Maritime Traffic to the Soviet Bloc Economy
Case 67	Excess Bunkering in Western European Ports of Vessels Trading with the European Soviet Bloc
Case 68	Non-Strategic Consumer Goods Suitable for Export to European Satellites
Case 73	The Metalworking Machinery Situation in the Soviet Bloc
Case 74	Phenol: Uses and Availabilities in the Soviet Bloc
Case 75	Indications of Soviet Bloc Uses and Supply of Titanium Ores

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Tab D

Cases Pending, 30 June 1954

<u>Designation</u>	<u>Title</u>	
Case 7	Collection Requirements on East-West Trade	
Case 36	Intelligence Data for [REDACTED]	25X1X6
Case 56	Proposed Study of Soviet Trade Activities and Tactics in Non-COCOM Areas	
Case 62	[REDACTED]	25X1X6

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Tab E

PROBLEMS OF INTELLIGENCE COLLECTION AND UTILIZATION

I. Production of IWG Reports

A. To maximize intelligence support to the security list review which was undertaken in connection with COCOM negotiations, a new procedure was adopted to supersede the previous arrangement under which the Office of International Trade (later BFC) had assumed responsibility for combining intelligence contributions from various agencies and writing a single paper containing technical definitions, intelligence and strategic rating recommendations. This new procedure provided for the preparation within the IWG of a paper incorporating intelligence on Soviet bloc, uses, production capabilities and shortages, with a second paper containing technical information only being prepared in BFC. This procedure resulted in a marked improvement in the IWG intelligence product and was utilized until the accelerated security list review in the Spring of 1954 made IWG processing of commodity papers impracticable.

B. During the recent Trilateral and CG/COCOM review of the security lists, the following criteria were used in placing items on embargo: Materials and equipment (1) designed specially or used principally for development, production or utilization of arms, ammunition, implements of war and atomic energy materials; (2) which incorporate advanced technology or unique know-how, the acquisition of which may reasonably be expected to permit a significant advance in Soviet bloc technology

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in military or atomic energy production over the level of development already achieved or expected to be achieved within a short period; and, (3) in which the Soviet bloc has a deficiency which is critical in relation to its military capabilities and which it could not overcome within a short period. An item could be placed on international embargo only if one of the above criteria were met. It was essential, therefore, that information pointing up the direct, or close indirect, military application of particular commodities be made available to the U.S. Delegation.

To elicit additional information of this nature, discussions were held between representatives of the military services and the Chairman, IWG. The results of these discussions were not entirely satisfactory and revealed that departmental intelligence needs were accorded priority over economic defense needs at an especially critical time.

G. A related problem in the production of commodity analyses has been that of obtaining approval for release of information for use in negotiations with foreign nationals. This problem applies to all intelligence, but particular difficulty is encountered in the case of intelligence falling within the category of "classified military information." A series of meetings were held, therefore, with military members of the IWG to discuss the application of SD-MICC policy governing the release of military information to foreign nationals. It was agreed that each of the military intelligence services has the authority in

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application of SD-MICC policy to permit release of the kind of military information generally found in IWG papers. Furthermore, such information generally is of low classification and is, therefore, releasable.

In light of this knowledge, an effort was made to acquaint military security officers with the facts that (1) the utilization of "classified military information" is for the purpose of obtaining a quid pro quo in the form of restrictions of strategic exports, and (2) inability to use such information would defeat the objectives of US economic defense policy.

D. It developed during the year that responsibility for production of IWG studies fell principally on CIA (Economic Defense Division, ORR), with other member agencies making comment or providing additional intelligence on a limited basis. Of the eighteen IWG studies completed during the review period, CIA initiated and completed thirteen. IWG subgroups prepared three, with the remainder being joint products of CIA and OIR. Written comments on draft IWG working papers were received only from the FOA and AFOIN representatives.

II. IWG Efforts to Increase Intelligence Collection

The First Annual Progress Report of the IWG related the efforts to prepare a consolidated set of requirements for collection on East-West trade. IWG discussions revealed that an underlying cause for inadequate intelligence to serve the needs of EDAC was (and continues to be) the low priority assigned to collection of this type of intelligence by covert collectors. This situation prevailed during the report period despite the establishment by the IAC on 5 August 1953 of a revised

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Priority List of Critical National Intelligence Objectives (IAC-D-50/2). Objective No. 8 of this List could be used as the basis for an intensified effort to collect such type information, but there is no indication as yet that the intelligence agencies have done so. Improved intelligence collection is an urgent matter in terms of the needs of the enforcement program under NSC 152/3 for adequate and timely intelligence or diversions of strategic commodities to the Soviet bloc. Only if such information is received can there be an adequate appraisal, also, of the benefits of decontrol of the war potential of the Soviet bloc.

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